

Minutes

LBNL Contract Assurance Council Meeting October 12, 2005

Participants

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| Bob Foley, Chair | Jim Hirahara |
| Joe Mullinix | David McGraw |
| Jim Holst | Jim Krupnick |
| Larry Coleman | John Chernowski |
| Anne Broome | Dan Lunsford |
| Pat Reed | Terry Hamilton |
| Cliff Brunk | Merna Hurd |
| Bob Van Ness | Ron Nelson |
| John Birely | Susan Thomas |
| Judy Boyette | Bill Eklund |
| Buck Koonce | |
| John Layton | |

The Agenda for the Council Meeting is attached.

LBNL Strategic Management Initiatives and Improvements

Jim Krupnick, LBNL Office of Institutional Assurance (OIA), provided an overview of the management initiatives that UC proposed in response to DOE's RFP for the Laboratory contract. *See attached briefing charts.* A spreadsheet was provided to Council members prior to the meeting and was the focus of discussion. It was reported that there were 26 separate initiatives proposed and that four initiatives have already been completed. Progress on the initiatives will be tracked by OIA and status will be discussed monthly with the DOE Berkeley Site Office Manager. The Plan contains milestones that extend for five years, the initial term of the contract. The Council expressed interest in receiving routine updates on status of the initiatives at future Council meetings and suggested a quarterly "stop-light" reporting approach that would provide a quick picture of how each initiative was progressing. OIA agreed to develop such a report.

Contract Performance Evaluation Plan

A copy of the government fiscal year 2006 Performance Evaluation Plan that was recently incorporated in to the Contract as Appendix B was provided to Council members prior to the meeting. As background for the Council, Jim Hirahara provided an overview of the DOE Office of Science laboratory appraisal process. *See attached briefing charts.* The briefing provided a rationale for the framework behind the goals and objectives included in Appendix B. The Council thought that it was particularly important to recognize that with the "gateway" model for determining fee, successful operational performance was critical to the overall success of the Laboratory, and that the entire management team, both scientific and operational, needed to work jointly for success. With the benefit of this background, the Council was requested to review Appendix B and provide any suggestions for improvement to Jim Hirahara prior to next month's Council meeting. As noted in the last Council meeting, such changes may be incorporated in to the process for continually improving Appendix B. This can occur either through special or mid-year modifications to Appendix B, if urgently needed, or the annual process of refinement of next year's measures and targets.

Disaster Planning

In the aftermath of recent Gulf Coast hurricane disasters, the Council expressed interest in understanding LBNL's disaster planning status and capability to assure continuity of operations in the event of a disaster. Jim Krupnick, with assistance from Dan Lunsford, LBNL's Director of Security and Emergency Operations Center (EOC) Point of Contact, provided a briefing on LBNL's Emergency Management program. *See attached briefing.* The briefing covered program strategy, program elements, and lessons learned from hurricane Katrina. LBNL reported that they have risked-based programs with mutual aid arrangements in place and appropriate training and exercise elements. With regard to lessons learned, LBNL's plan for isolation and delayed response from authorities gave rise to several areas of concern. Appropriate measures have been taken such as restocking of emergency supplies and water. Recovery and resumption planning require a substantial amount of additional work. The Council recommended that LBNL make follow-up contacts with Judy Boyette, Kay Miller, Anne Broome and Dan Sampson regarding business recovery planning. UCOP has gained substantial experience in working to address these issues at the campuses, including the use of outside consultants, and there may be some useful lessons learned for LBNL, especially with its proximity to the UC Berkeley campus. The Council also recommended that LBNL conduct no-notice exercises to test their effectiveness in standing up the Laboratory's EOC.

Budget Outlook and Assurance Impacts

David McGraw reported that LBNL is anticipating that its overall budget for the current year will be very tight and some layoffs in particularly hard hit programs are expected. In spite of the tight budgets, there was recognition that staff members providing support to the Laboratory in various assurance functions is important. In the past week, the LBNL budget committee approved the Laboratory's overall budget for support costs that would maintain a flat indirect cost rate. LBNL specifically provided needed resources in two areas, CFO and Personal Property, where performance improvement needed to be kept on track. The Council was encouraged by the report and commented that in times of tight budgets it is challenging, but critically important, to maintain appropriate balance between the mission and support activities. The Council also commented that it was important when layoffs occurred to consciously evaluate the impact a proposed layoff would have on the internal control environment, i.e., when a person performing an critical internal control duty is being eliminated, is the critical duty being preserved and reassigned to someone else. LBNL agreed this should be considered in the Laboratory's assurance framework and will consider how to address the concern within the Laboratory.

Audit Status

Anne Broome reported that a draft report from the University's independent auditor, Pricewaterhouse Coppers, had been received. PwC performed an expanded audit following agreed upon procedures, and while it was not a full scope audit, it was very thorough in the areas covered. The final report will be presented to the Regent's Audit Committee, so detailed findings were not discussed. Overall, the audit is favorable, indicating much improvement in financial operations at the Laboratory over the past several years. There were recommendations for improvement, but no significant weaknesses that require urgent attention were noted.

A presentation covering the FY06 Annual Audit Cycle and Internal Audit Plan, as well as the status of external audits, was provided by Terry Hamilton, LBNL Audit Manager. *See attached briefing.* The independent reporting relationship of the Audit Manager to the Regents through the University Auditor, and administrative reporting to Director Chu was explained. The Council expressed

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interest in hearing, at future Council meetings, results from selected audits which address significant issues or issues needing to be resolved that might benefit from the ideas and experience of Council members.

LBNL Assurance Topics

- David McGraw reported that LBNL was still awaiting notification from the DOE/BSO Site Manager on her determination regarding the Conditional Payment of Fee Notice issued in connection with the electrical safety incident at the Laboratory. (Shortly after the Council meeting, the Laboratory was notified that the BSO Site Manager decided that there was insufficient basis to reduce the LBNL fee so the matter has been resolved in the University's favor. A more detailed explanation will be provided at the next Council meeting.)
- The LBNL Assurance Plan will be coordinated with the DOE/BSO for concurrence and finalization. There are varied approaches being used by other Office of Science Laboratories and no detailed guidance from the Office of Science, so lessons learned from other Laboratories are limited. LBNL is communicating with LANL, LLNL and others to learn what others are doing to strengthen their financial management control environment to meet the requirements of OMB Circular A-123. Potential changes or new approaches are currently under review and, if significant, will be evaluated for possible changes to the Assurance Plan.
- Jim Krupnick provided a briefing on a self-assessment of the Joint Genome Institute commissioned by LBNL Deputy Director Fleming. *See attached briefing.* Concerns were raised about operational effectiveness and facility planning as the JGI transitioned from its predominately scientific mission to primarily a user facility. Overall, the self-assessment team found the JGI to be satisfactorily managed, but could improve communication with facility users and partners, and needed to resolve an issue with their lease.

General Discussion

The Council engaged in a general discussion regarding whether the agenda topics and information that was being provided were beneficial or not. The Council appreciated the quality of the presentations and found the information to be helpful. Concern was expressed as to whether and how the Council can become fully aware of significant issues at LBNL on a timely basis so we can provide helpful advice to the Laboratory. It was recognized that the Council should not undermine or pre-empt the responsibility and authority of LBNL management, but should be able to provide an appropriate level of assurance that there is sufficient formality of operations being followed to implement plans and procedural requirements. Some suggestions for how to better attain this level of assurance included (1) focusing on Appendix B performance progress and results; (2) focusing on progress in implementing the LBNL Management Initiatives; (3) understanding issues arising from internal and external audits; (4) inviting the DOE/BSO Site Manager to share issues and concerns on DOE's part with the Council at a future meeting; and (5) continue inviting key LBNL managers, e.g. LBNL's CFO, to provide briefings to the Council, with special emphasis on vulnerabilities and improvement initiatives. Future Council agendas will be developed with these suggestions in mind.

AGENDA
LBNL CONTRACT ASSURANCE COUNCIL
Wednesday, October 12, 2005
9:00 a.m. - 11:00 a.m.
1111 Franklin Street, 12th Floor, Room 12322
Call in Number (866) 740-1260 Code: 9870914

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| 8:45 | Light Refreshments | |
| 9:00 | Introductory Remarks | Bob Foley |
| 9:05 | LBNL Strategic Management Initiatives and Improvements (spreadsheet attached) | Jim Krupnick |
| 9:20 | Contract Performance Evaluation Management Plan for FY06 (Appendix B attached) | Jim Hirahara |
| 9:35 | Disaster Planning | Jim Krupnick |
| 9:55 | Budget Outlook and Assurance Impacts | Dave McGraw |
| 10:05 | Audit Status <ul style="list-style-type: none"> - UC Pricewaterhouse Coopers preliminary audit status - LBNL FY06 Audit Plan - DOE/IG Financial Audit status | Anne Broome Terry Hamilton |
| 10:20 | LBNL Assurance Topics <ul style="list-style-type: none"> - Conditional Payment of Fee Notice – Electrical Safety Incident - Follow-up on LBNL Assurance Plan Discussion at September CAC meeting <ul style="list-style-type: none"> • NLIC Feedback • Financial Management Control Environment (OMB Circular A-123) - Joint Gnome Institute Self Assessment - Other | John Chernowski/ David McGraw/ Jim Krupnick |
| 10:55 | Next Meeting | |
| Council Members: | | |
| VP Foley, Council Chair | AVP Van Ness | |
| SVP Mullinix | AVP Birely | |
| SVP Darling | AVP Boyette | |
| General Counsel Holst | Deputy AVP Koonce | |
| Vice Provost Coleman | | |
| VP Broome | External Members: | |
| Auditor Reed | Karen Clegg | |
| Academic Senate Chair Brunk | John Layton | |